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March 8, 2011

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Mr. Tom Boyko
Western Area Power Administration
114 Parkshore Drive
Folsom, CA 95630

Dear ~~Mr. Boyko~~: Tom

This letter is in response to the recent Federal Register Notice (FRN) regarding Western's proposed rates. The proposed rates, in regards to the Trinity Public Utilities District (Trinity PUD), are not materially different than the last rate proposal in 2008. Therefore my comments on the current proposal are basically repetitive to those offered in 2008. The Trinity PUD appreciates that Western has informally dealt with our 2008 concerns, however we would prefer a more formal process going forward.

Trinity PUD's fundamental concern is that absent a Revenue Adjustment Clause (RAC), the proposed rates create the possibility of inequitable sharing of costs between First Preference and Preference customers. Western has demonstrated, by its practices under the current rates, that it makes best efforts to equally share costs. However, some minor disproportionate cost sharing has occurred and there is no formal means to prevent what has been minor from becoming major. The potential inequity exists because, what First Preference pays is based on estimates of both load and generation, with no after-the-fact true-up or RAC, while the only estimate used to determine all customers' costs is the PRR.

Errors in the estimates of PRR affect all customers the same. If Western's revenues exceed its revenue requirements the excess is used to pay debt, however what First Preference paid during the year may be more or less than its share of the extra debt payment. For example, if Western has forecasted too high of a load for First Preference and/or forecasted too low for CVP generation, then the actual amount that First Preference contributed to debt payment, as a percentage, could be considerably higher than the percentage of Base Resource that First Preference used. The opposite inequity can also occur to be in First Preference's favor, and similar problems exist when Western's revenue is too low to make all of the debt payment scheduled for that year.

I realize that Western has included some adjustment provisions, if it learns that their forecast errors are significant mid way through the year. However, there are no true-up provisions for the cumulative impact from year to year. Therefore, if Western's estimates are always "close enough" to avoid a mid-year adjustment and if the estimate is always higher or lower than actual, then every year the difference accumulates. The possibility of consistently "one-sided" errors is very high as it is human nature to estimate on the low side in terms of expected generation and on the high side in terms of expected load.

Frankly, I do not know where the Trinity PUD now stands in terms of the cumulative error since the beginning of the current rate structure. I suspect we have paid more than we would have if the estimates had equaled the actual. However even if we have paid less, I believe that the possibility of a cumulative error should not be allowed.

P.O. Box 1216, Weaverville CA 96093 • Cust. Service (530) 623-5536 • Administration (530) 623-4564 • Fax (530) 623-5549

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This concern can easily be addressed in one of two ways. Western could reintroduce the concept of a RAC that applies only to First Preference. Or, during the process of forecasting the First Preference load and CVP generation, include an adjustment to offset previous forecasting errors. Either way should assure that First Preference will, over time, pay no more or no less than its fair share.

I am disappointed that the FRN does not formalize Western's past practice of working with First Preference on the forecasts required by the proposed rates. We anticipate this practice will continue, but the lack of formality is of concern. In the past Western has contacted us on this matter at virtually the last moment. For example, we were contacted just one week before Western was intending to publish the new First Preference percentages following the closure of the local lumber mill, the largest employer in Trinity County. Without that contact, Western would have grossly overestimated load and we would have been paying far too much, at least until the mid-year adjustment. We would prefer that the final rates include a requirement for Western to consider input from First Preference customers prior to publishing new First Preference percentages.

On a different matter that may or may not be appropriate to consider as part of the proposed rates, I remain completely mystified as to the magnitude of the difference per kWh between what First Preference pays and what Project Use pays. I realize that the apparent difference may not be as great as it first appears because of various leading and lagging timing issues and because of the enigmatic cost allocation process. However I am concerned that the myriad of details and numbers of calculations result in either Project Use not paying its fair share of costs or First Preference paying more than its fair share. I expect it is the former and if true it should be a concern of all preference customers. I do not believe First Preference and Project Use should be incurring exactly the same per kWh costs, but the magnitude of the difference remains inexplicable to me.

I do not want you to misinterpret the purpose of this letter. It serves only to avoid what could become big issues at a later date. I certainly appreciate the hard and conscientious work of Western's staff and their sense of fairness, and I understand why some of the details I address above may have not been resolved in the proposed rates. However, I have a responsibility to Trinity PUD customers in attempting to get the details of these issues resolved.

Sincerely,

Rick Coleman
General Manager

RC/kp